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Washington, D.C. 20007

## OMB APPROVAL

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## ANNUAL AUDITED REPORT

FORM X-17A-5

## PART III

## FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/10 AND ENDING 12/31/10  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: TLS Financial Services, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

920 Providence Road

(No. and Street)

Towson

Maryland

21286-2977

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Thomas L. Schmidt

410-825-1295

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Kuczak &amp; Associates, P.A.

(Name - if individual, state last, first, middle name)

139 North Main Street

Bel Air

Maryland

21014

(Address)

(City)

(State)

(Zip Code)

## CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

## FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, Thomas L. Schmidt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TLS Financial Services, Inc., as of December 31, 2010, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Thomas L. Schmidt  
Signature  
President  
Title

Debra J. Kalenduk  
Notary Public  
My Commission Expires: 06/01/2011

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**TLS FINANCIAL SERVICES, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2010**

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139 North Main Street, Suite 300  
Bel Air, MD 21014

Report of Independent Registered Public Accounting Firm

The Board of Directors  
TLS Financial Services, Inc.  
Towson, Maryland

We have audited the accompanying statement of financial condition of TLS Financial Services, Inc. as of December 31, 2010, and related statements of income, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TLS Financial Services, Inc. as of December 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Financial and Operational Combined Uniform Single Report IIa and Statement Pertaining to Exemptive Provisions Under 15c3-3 (k) are presented for purposes of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kuczak & Associates, P.A.*

Bel Air, Maryland  
January 17, 2011

# **TLS FINANCIAL SERVICES, INC.**

## **Balance Sheet**

See Auditor's Report

December 31, 2010

### **ASSETS**

#### **Current Assets:**

Cash and cash equivalents	\$ 47,561
Commissions receivable	230
Total Current Assets	<u>47,791</u>

<b>Total Assets</b>	<u><u>\$ 47,791</u></u>
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### **LIABILITIES AND STOCKHOLDER'S EQUITY**

#### **Current Liabilities:**

Accounts payable	\$ 615
	<u>615</u>

#### **Stockholders' Equity:**

Common stock \$1.00 par value; authorized 100,000 shares	
Issued and outstanding 100 shares	100
Additional paid-in capital	28,731
Retained earnings	18,345
Total stockholders' equity	<u>47,176</u>

<b>Total Liabilities and Stockholders' Equity</b>	<u><u>\$ 47,791</u></u>
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The notes to financial statements are an integral part of these statements.

**TLS FINANCIAL SERVICES, INC.**

**Statements of Income and Retained Earnings**

See Auditor's Report

December 31, 2010

**INCOME**

Commissions	\$ 33,783
-------------	-----------

**EXPENSES**

Commissions	17,000
Management fee	6,000
Professional fees	3,800
Insurance	2,273
Other expenses	300
	<u>29,373</u>

<b>Net income</b>	<u><u>\$ 4,410</u></u>
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**RETAINED EARNINGS**

Retained earnings, beginning of year	\$ 23,935
Net income	4,410
Distributions to stockholder	<u>(10,000)</u>

<b>Retained earnings, end of year</b>	<u><u>\$ 18,345</u></u>
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The notes to financial statements are an integral part of these statements.

**TLS FINANCIAL SERVICES, INC.**

**Statement of Cash Flows**

See Auditor's Report

December 31, 2010

**Cash flows from operating activities:**

Net income	\$ 4,410
Adjustments needed to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase decrease in	
Increase in commissions receivable	(230)
Increase in accounts payable and other liabilities	115
Net cash provided by operating activities	<u>4,295</u>

**Cash flows from financing activities:**

Distributions to stockholders	<u>(10,000)</u>
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**Decrease in cash and cash equivalents**

(5,705)

Cash and cash equivalents, beginning of year

53,266

**Cash and cash equivalents, end of year**

\$ 47,561

The notes to financial statements are an integral part of these statements.



# **TLS FINANCIAL SERVICES, INC.**

## **Notes to Financial Statements**

See Auditor's Report

December 31, 2010

### **1. Line of Business and Summary of Significant Accounting Policies**

#### Nature of Business and Reporting Entity

TLS Financial Services, Inc. was incorporated in Maryland in 1986. The Company advises investors in the Mid-Atlantic region, in the purchase of mutual fund investments and acts as an agent, receiving commissions from mutual fund families when their clients purchase mutual fund investments. The Company's business is limited to mutual funds.

#### Revenue and Cost Recognition

Revenues are derived primarily from brokerage commissions. They are recorded on the accrual basis.

#### Cash and Equivalents

For the purposes of the cash flow presentation, the Company considers all cash on deposit and money market funds as cash and equivalents.

#### Commissions Receivable

Commissions receivable represent commissions due from various mutual fund families. These receivables are generally fully collected within 30 days. As a result, management has not provided an allowance for doubtful accounts on these receivables.

#### Income Taxes

The stockholder of the Company has elected to be taxed in accordance with the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, in lieu of corporate income taxes, the individual shareholder is taxed on his proportionate share of the taxable income of the Company. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements.

#### Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accompanying financial statements contain no significant estimates.

# **TLS FINANCIAL SERVICES, INC.**

## **Notes to Financial Statements (continued)**

See Accountant's Review Report

For the year ended December 31, 2010

### **2. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1) which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2010, the Company had net capital requirements of approximately \$47,176 and \$5,000, respectively. The Company's aggregate indebtedness to net capital ratio was .01 to 1.

### **3. Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash.

The Company maintains cash with one financial institution, but is within the FDIC limits. As part of its cash management process, the Company performs periodic evaluations of its credit standing of the financial institution.

### **4. Related Party Transactions**

TLS Advisory Services, Inc. a related party through common ownership maintains office space used by the Company. During the year the Company paid TLS Advisory Services, Inc. \$500 per month under a month-to-month arrangement as a management fee for their use of office space and supplies. The management fee for the year ended December 31, 2010 was \$6,000.

The Company paid commissions in the amount of \$17,000 to the sole stockholder during the year ended December 31, 2010.

**TLS FINANCIAL SERVICES, INC.  
STATEMENT PERTAINING TO EXEMPTIVE  
PROVISIONS UNDER 15C3-3(K)  
December 31, 2010**

**Computation for Determination of Reserve  
Requirement Under Exhibit A  
Of Rule 15c3-3**

Member exempt under 15c3-3(k)

**Information Relating to Possession  
and Control Requirements  
Under Rule 15c3-3**

Member exempt under 15c3-3(k)

TLS FINANCIAL SERVICES, INC.  
SCHEDULE OF COMPUTATION OF AGGREGATE INDEBTEDNESS  
AND NET CAPITAL  
(PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 15c3-1)  
DECEMBER 31, 2010

COMPUTATION OF AGGREGATE INDEBTEDNESS

Liabilities included in aggregate indebtedness:

Accounts payable	\$ 615
Aggregate Indebtedness	<u>\$ 615</u>

COMPUTATION OF NET CAPITAL

Total stockholders' equity	\$ 47,176
Less: Total Non-Allowable Assets	-
Net Capital	<u>\$ 47,176</u>

CAPITAL REQUIREMENTS

Net capital required	\$ 5,000
Net capital in excess of requirements	<u>42,176</u>
Net capital, as shown above	<u>\$ 47,176</u>
Ratio of aggregated indebtedness to net capital	<u>.01 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital, as reported in Company's Part II (Unaudited) Focus Report	<u>\$ 47,176</u>
Net Capital Per Above	<u>\$ 47,176</u>
Aggregate indebtedness, as reported in Company's Part II (Unaudited) Focus Report	\$ 615
No changes required, as noted during audit	-
Aggregate indebtedness, Per Above	<u>\$ 615</u>

There were no material differences between the audited computation of net capital and the broker/dealer's corresponding Unaudited Part II A.

*See Independent Auditors' Report*

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Date: 1/16/11 12:47 PM  
Status: Accepted

FORM  
X-17A-5

FOCUS REPORT  
(FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT)  
PART IIA 12

(Please read instructions before preparing Form)

This report is being filed pursuant to (Check Applicable Block(s)):

1) Rule 17a-5(a) ☒ 16

2) Rule 17a-5(b) ☐ 17

3) Rule 17a-11 ☐ 18

4) Special request by designated examining authority ☐ 19

5) Other ☐ 26

NAME OF BROKER-DEALER

SEC. FILE NO.

TLS FINANCIAL SERVICES, INC. 13

8-37664 14

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No.)

FIRM ID NO.

920 PROVIDENCE RD, SUITE 203 20

19625 15

(No. and Street)

FOR PERIOD BEGINNING (MM/DD/YY)

10/01/10 24

AND ENDING (MM/DD/YY)

TOWSON 21

MD 22

21286-2977 23

12/31/10 25

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT (Area code) - Telephone No.

Thomas L. Schmidt 30

(410) 825-1295 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT

OFFICIAL USE

32

33

34

35

36

37

38

39

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS ?

YES ☐ 40 NO ☒ 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT

☐ 42

EXECUTION:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 16TH day of JANUARY 20 11

Manual Signatures of:

- 1) Thomas L. Schmidt  
Principal Executive Officer or Managing Partner
- 2) Thomas L. Schmidt  
Principal Financial Officer or Partner
- 3) Thomas L. Schmidt  
Principal Operations Officer or Partner

ATTENTION - Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:f (a) )

FINRA

## FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

Date: 1/16/11 12:47 PM

## PART IIA

Status: Accepted

BROKER OR DEALER

TLS FINANCIAL SERVICES, INC.

N

3

100

STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND  
CERTAIN OTHER BROKERS OR DEALERS

as of (MM/DD/YY) 12/31/10 99

SEC FILE NO. 8-37664 98

Consolidated 198

Unconsolidated X 199

## ASSETS

## Allowable

## Non-Allowable

## Total

1. Cash	\$ 47,561	200	\$ 47,561	750
2. Receivables from brokers or dealers:				
A. Clearance account		295		
B. Other	230	300	\$ 550	230 810
3. Receivables from non-customers		355	600	830
4. Securities and spot commodities owned, at market value:				
A. Exempted securities		418		
B. Debt securities		419		
C. Options		420		
D. Other securities		424		
E. Spot commodities		430		850
5. Securities and/or other investments not readily marketable:				
A. At cost	\$ 130			
B. At estimated fair value		440	610	860
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:		460	630	880
A. Exempted securities	\$ 150			
B. Other securities	\$ 160			
7. Secured demand notes:		470	640	890
Market value of collateral:				
A. Exempted securities	\$ 170			
B. Other securities	\$ 180			
8. Memberships in exchanges:				
A. Owned, at market	\$ 190			
B. Owned, at cost			650	
C. Contributed for use of the company, at market value			660	900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships		480	670	910
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization.		490	680	920
11. Other assets		535	735	930
12. Total Assets	\$ 47,791	540	\$ 47,791	940

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT**  
**PART IIA**

Date: 1/16/11 12:47 PM  
Status: Accepted

**BROKER OR DEALER**

TLS FINANCIAL SERVICES, INC.

as of

12/31/10

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING,  
NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS**  
**LIABILITIES AND OWNERSHIP EQUITY**

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable .....	\$ 1045	\$ 1255	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account .....	1114	1315	1560
B. Other .....	1115	1305	1540
15. Payable to non-customers .....	1155	1355	1610
16. Securities sold not yet purchased, at market value .....		1360	1620
17. Accounts payable, accrued liabilities, expenses and other .....	615 1205	1385	615 1685
18. Notes and mortgages payable:			
A. Unsecured .....	1210		1690
B. Secured .....	1211	1390	1700
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		1400	1710
1. from outsiders \$ .....	970		
2. Includes equity subordination (15c3-1(d)) of .....	980		
B. Securities borrowings, at market value from outsiders \$ .....	990	1410	1720
C. Pursuant to secured demand note collateral agreements .....		1420	1730
1. from outsiders \$ .....	1000		
2. includes equity subordination (15c3-1(d)) of .....	1010		
D. Exchange memberships contributed for use of company, at market value .....		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes .....	1220	1440	1750
20. TOTAL LIABILITIES .....	\$ 615 1230	\$ 1450	\$ 615 1760

Ownership Equity

21. Sole proprietorship .....	\$	1770
22. Partnership (limited partners) .....	\$ 1020	1780
23. Corporation:		
A. Preferred stock .....		1791
B. Common stock .....	100	1792
C. Additional paid-in capital .....	28,731	1793
D. Retained earnings .....	18,345	1794
E. Total .....	47,176	1795
F. Less capital stock in treasury .....	( )	1796
24. TOTAL OWNERSHIP EQUITY .....	\$ 47,176	1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY .....	\$ 47,791	1810

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA

Date: 1/16/11 12:47 PM  
Status: Accepted

BROKER OR DEALER

TLS FINANCIAL SERVICES, INC.

as of

12/31/10

COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition	\$	47,176	3480
2. Deduct ownership equity not allowable for Net Capital	(		3490
3. Total ownership equity qualified for Net Capital		47,176	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			3520
B. Other (deductions) or allowable credits (List)			3525
5. Total capital and allowable subordinated liabilities	\$	47,176	3530
6. Deductions and/or charges:			
A. Total non-allowable assets from			
Statement of Financial Condition (Notes B and C)	\$		3540
B. Secured demand note deficiency			3590
C. Commodity futures contracts and spot commodities-proprietary capital charges			3600
D. Other deductions and/or charges			3610
	(		3620
7. Other additions and/or allowable credits (List)			3630
8. Net Capital before haircuts on securities positions	\$	47,176	3640
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)) :			
A. Contractual securities commitments	\$		3660
B. Subordinated securities borrowings			3670
C. Trading and investment securities:			
1. Exempted securities			3735
2. Debt securities			3733
3. Options			3730
4. Other securities			3734
D. Undue concentration			3650
E. Other (List)			3736
	(		3740
10. Net Capital	\$	47,176	3750

OMIT PENNIES



# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

Date: 1/16/11 12:47 PM  
Status: Accepted

BROKER OR DEALER

TLS FINANCIAL SERVICES, INC.

as of 12/31/10

### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

#### Part A

11. Minimum net capital required (6-2/3% of line 19)	\$	41	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	5,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	5,000	3760
14. Excess net capital (line 10 less 13)	\$	42,176	3770
15. Net capital less greater of 10% of line 19 or 120% of line 12	\$	41,176	3780

### COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	\$	615	3790
17. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	3820	
19. Total aggregate indebtedness	\$	615	3840
20. Percentage of aggregate indebtedness to net capital (line 19 divided by line 10)	%	1.30	3850
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c-3-1(d)	%	0.00	3860

### COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

#### Part B

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	3870	
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	3880	
24. Net capital requirement (greater of line 22 or 23)	\$	3760	
25. Excess net capital (line 10 less 24)	\$	3910	
26. Net capital in excess of the greater of: 5% of combined aggregate debit items or 120% of minimum net capital requirement	\$	3920	

#### NOTES:

(A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:

1. Minimum dollar net capital requirement, or
2. 6-2/3% of aggregate indebtedness or 4% of aggregate debits if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of the memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

Date: 1/16/11 12:47 PM  
Status: Accepted

**BROKER OR DEALER**

TLS FINANCIAL SERVICES, INC.

For the period (MMDDYY) from 10/01/10 3932 to 12/31/10 3933  
Number of months included in this statement 3 3931

### REVENUE

### STATEMENT OF INCOME (LOSS)

#### 1. Commissions:

a. Commissions on transactions in exchange listed equity securities executed on an exchange	\$	3935
b. Commissions on listed option transactions		3938
c. All other securities commissions		3939
d. Total securities commissions		3940

#### 2. Gains or losses on firm securities trading accounts

a. From market making in options on a national securities exchange		3945
b. From all other trading		3949
c. Total gain (loss)		3950

#### 3. Gains or losses on firm securities investment accounts

		3952
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#### 4. Profits (losses) from underwriting and selling groups

		3955
--	--	------

#### 5. Revenue from sale of investment company shares

	7,264	3970
--	-------	------

#### 6. Commodities revenue

		3990
--	--	------

#### 7. Fees for account supervision, investment advisory and administrative services

		3975
--	--	------

#### 8. Other revenue

	171	3995
--	-----	------

#### 9. Total revenue

	\$ 7,435	4030
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### EXPENSES

#### 10. Salaries and other employment costs for general partners and voting stockholder officers

	3,369	4120
--	-------	------

#### 11. Other employee compensation and benefits

	309	4115
--	-----	------

#### 12. Commissions paid to other brokers-dealers

		4140
--	--	------

#### 13. Interest expense

		4075
--	--	------

#### a. Includes interest on accounts subject to subordination agreements

	4070	
--	------	--

#### 14. Regulatory fees and expenses

	1,656	4195
--	-------	------

#### 15. Other expenses

	1,500	4100
--	-------	------

#### 16. Total expenses

	\$ 6,834	4200
--	----------	------

### NET INCOME

#### 17. Net Income (loss) before Federal income taxes and items below (Item 9 less Item 16)

	\$ 601	4210
--	--------	------

#### 18. Provision for Federal income taxes (for parent only)

		4220
--	--	------

#### 19. Equity in earnings (losses) of unconsolidated subsidiaries not included above

		4222
--	--	------

#### a. After Federal income taxes of

	4238	
--	------	--

#### 20. Extraordinary gains (losses)

		4224
--	--	------

#### a. After Federal income taxes of

	4239	
--	------	--

#### 21. Cumulative effect of changes in accounting principles

		4225
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#### 22. Net income (loss) after Federal income taxes and extraordinary items

	\$ 601	4230
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### MONTHLY INCOME

#### 23. Income (current month only) before provision for Federal income taxes and extraordinary items

	4,793	4211
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FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA

Date: 1/16/11 12:47 PM  
Status: Accepted

BROKER OR DEALER

TLS FINANCIAL SERVICES, INC.

For the period (MMDDYY) from 10/01/10 to 12/31/10

STATEMENT OF CHANGES IN OWNERSHIP EQUITY  
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

1. Balance, beginning of period	.....	\$	46,575	4240
A. Net income (loss)	.....		601	4250
B. Additions (includes non-conforming capital of	..... \$ 4262 )			4260
C. Deductions (includes non-conforming capital of	..... \$ 4272 )			4270
2. Balance, end of period (from item 1800)	.....	\$	47,176	4290

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS

3. Balance, beginning of period	.....	\$		4300
A. Increases	.....			4310
B. Decreases	.....			4320
4. Balance, end of period (from item 3520)	.....	\$		4330

OMIT PENNIES

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

Date: 1/16/11 12:47 PM  
Status: Accepted

**BROKER OR DEALER**

TLS FINANCIAL SERVICES, INC.

as of 12/31/10

## Exemptive Provision Under Rule 15c3-3

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based :

A. (k) (1) - Limited business (mutual funds and/or variable annuities only) ..... \$ X 4550

B. (k) (2) (i) - "Special Account for the Exclusive Benefit of customers" maintained ..... 4560

C. (k) (2) (ii) - All customer transactions cleared through another broker-dealer on a fully disclosed basis.

Name(s) of Clearing Firm(s) - Please separate multiple names with a semi-colon

4335 4570

D. (k) (3) - Exempted by order of the Commission ..... 4580

Ownership Equity and Subordinated Liabilities maturing or proposed to be  
withdrawn within the next six months and accruals, (as defined below),  
which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual (See below for code to enter)	Name of Lender or Contributor	Insider or Outsider ? (In or Out)	Amount to be with- drawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (Yes or No)
4600	4601	4602	4603	4604	4605
4610	4611	4612	4613	4614	4615
4620	4621	4622	4623	4624	4625
4630	4631	4632	4633	4634	4635
4640	4641	4642	4643	4644	4645
4650	4651	4652	4653	4654	4655
4660	4661	4662	4663	4664	4665
4670	4671	4672	4673	4674	4675
4680	4681	4682	4683	4684	4685
4690	4691	4692	4693	4694	4695
TOTAL			\$ 4699	OMIT PENNIES	

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c) (2) (iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE:	DESCRIPTION
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals
4.	15c3-1(c) (2) (iv) Liabilities

139 North Main Street, Suite 300  
Bel Air, MD 21014

Independent Auditors' Report on Internal Accounting Control  
Required by SEC Rule 17a-5

Board of Directors  
TLS Financial Services, Inc.

In planning and performing our audit of the financial statements of TLS Financial Services, Inc. for the year ended December 31, 2010, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure of the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level that risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted the following matter involving segregation of duties that we consider to be a material weakness as described above. This condition was considered in determining the nature, timing and extent of procedures performed in our audit of TLS Financial Services, Inc., for the year ended December 31, 2010 and this report does not affect our report thereon dated January 17, 2011.

The Company does not have an adequate segregation of duties over accounting transactions. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2010, to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used for any other purpose.

*Kucyala : A. Kucyala, P.A.*

Baltimore, Maryland  
January 17, 2011